

Taiwan WTO Accession and U.S. Horticultural Trade

Taiwan's accession to the World Trade Organization on January 1, 2002 has allowed for improved access to a market that is very important to the U.S. horticultural industry. Despite an already large market share, the United States can expect this market to become increasingly competitive.

Country Overview

Taiwan is an island located between Japan and the Philippines, with a current population of 22,406,000 people. As an island, Taiwan is heavily dependent on imports. Traditional labor-intensive industries are steadily being moved offshore and replaced with more capital- and technology-intensive industries. Taiwan is continually developing its business relationships with the Chinese mainland and is a major investor in the People's Republic of China (PRC). In addition, Taiwan has become a major investor in Thailand, Indonesia, the Philippines, Malaysia, and Vietnam. Japan is a major supplier of goods and services to Taiwan, accounting for 24 percent of total imports during 2001. The United States ranked second, accounting for 17 percent, ahead of Korea and China. Because of its conservative financial approach and its entrepreneurial strengths, Taiwan was better able to absorb the negative affects from the Asian crisis of the late 1990s.

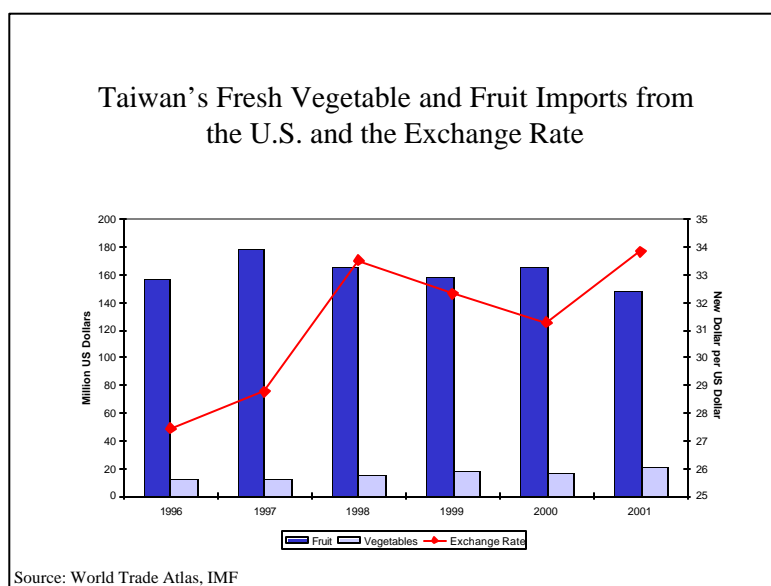
Taiwan has been one of the largest markets for U.S. agricultural products since the 1970s, importing grains, soybeans, and an increasing variety of higher valued products. The United States is Taiwan's main supplier of total agricultural products, with sales of approximately \$ 2.2 billion in 2001. During fiscal year 2001, Taiwan was the sixth largest market for U.S. horticultural export with exports valued at \$ 355 million. Australia, New Zealand, Thailand and Japan also contributed to the total \$ 4.7 billion in agricultural-related imports during 2001.

Trading Dynamic

Overall, Asia has about 60 percent of the world's population but only about 34.5 percent of the world's arable land. As a result, vegetable and fruit production practices in Asia are highly labor intensive on land that is relatively scarce. Despite this reality, the Asian diet is traditionally high in fruits and vegetables. As the Asian countries regain financial stability and grow economically, the demand for higher quality horticultural products is expected to increase. Agriculture in Taiwan now contributes only about 3 percent of GDP, down from 35 percent in 1952. Building on the well-established trade with Taiwan could become a "gateway" for expanding agricultural trade with the rest of the region.

The United States is by far the largest provider of total fresh fruit supplied to Taiwan. The value of the Taiwan dollar weakened during the Asian Crisis, but fared better than other Asian countries such as Indonesia and Thailand. The currency gained some strength in 1999/2000 but then saw another slight downward pitch against the U.S. dollar last year during Taiwan's first economic contraction since 1990. During 2001, unemployment reached 5 percent, while the

economic growth rate declined 2.2 percent, which, in part, led to a decline in fresh fruit exports to Taiwan. In contrast, fresh vegetables, although a much smaller portion of U.S. horticultural trade to this market, saw an 8 percent increase (\$2.5 million). During the first quarter of this year, and since WTO accession, horticultural product shipments to Taiwan from the United States have decreased 11 percent compared to the same period during 2001.



The mid-term outlook for trade with Taiwan appears promising, with the admission of Taiwan into the WTO¹. Currently, the United States is well positioned to maintain and perhaps grow market share, as horticultural trade has already been established in the country and competitors continue to work out various phytosanitary restrictions. However, in the long term, it is expected that U.S. products will continue to face growing competition from third country producers.

Specific Commodities

The top fruit commodities exported to Taiwan from the United States includes apples, peaches, fresh grapes, cherries, plums and oranges. According to the Taiwan Directorate General of Customs, during 2001, U.S. apple shipments to Taiwan accounted for 77 percent of the total market with the remaining market share being supplied mostly by Chile, New Zealand and Japan. Despite declines in exports of apples to Taiwan since the Asian crisis, U.S. apples have been able to maintain market share under the previous system of preferential treatment, under which the United States and Canada were the only countries to have unrestricted access. Upon accession, Taiwan granted unrestricted access to all WTO members. However, countries will have to satisfy Taiwan's stringent plant quarantine requirements in order to ship product. Japan actually lost market share, declining from 5.5 percent in 1996 to 2.7 percent in 2001, but this is expected to turn around with shipments of Fuji apples under the new liberalization. About 7 percent of the market is held by Chile, but with open markets, increased shipments from other Southern Hemisphere countries are expected. In another market segment, stone fruit, the United States has about 85 percent of the Taiwan import market, with 15 percent supplied in the U.S. off-season from Chile, Australia, and New Zealand. Specifically, peach imports from the United States were valued at \$ 14.6 million in 2001, double the value of product moving into the market six years ago².

¹ January 1, 2002 – under the nomenclature of Chinese Taipei – officially, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu

² China does not meet Taiwan's current quarantine requirements for peach imports.

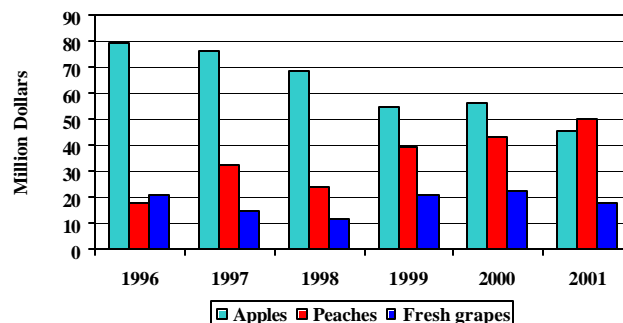
During 2001, U.S. market share of table grape imports into Taiwan was at 97 percent. The remaining 3 percent was supplied by Chile during the U.S. off-season. U.S. grapes compete mostly with local production, consisting of the Kyoho and Italia varieties and differing from those currently shipped by the United States.

Taiwan is also an important market for the cherry, plum, and orange industries in the United States. In terms of value of fruit exports, these commodities rank fourth, fifth, and sixth, respectively.

The U.S. leads the world in cherry exports, accounting for about 40 percent of the world total. Cherry exports to Taiwan were valued at about \$15 million last year. Asian markets, specifically Japan and Taiwan, helped to sustain export growth. The current applied tariff of cherries imported into Taiwan is 7.5 percent.

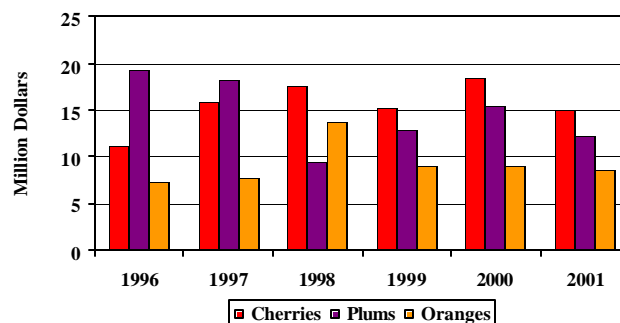
Top 3 U.S. Fruit Exports to Taiwan

By Commodity



Source: U.S. Department of Commerce, Bureau of the Census

Other Key U.S. Fruit Exports to Taiwan



Source: U.S. Department of Commerce, Bureau of the Census

With WTO accession, the number of countries supplying the market for plums will expand. Southern Hemisphere countries like Chile, Australia, and New Zealand as well as Europe, are expected to eventually ship to Taiwan. However, Chile and Australia are currently barred from shipping due to pest concerns.

During the off-season lasting from April to September 2001, the United States supplied about 93 percent of all oranges imported into Taiwan, valued at about \$8.5 million. South Africa also accounted for a nominal amount. At this time, a major concern for local growers is that Thailand

produces oranges during a season that is only slightly earlier than Taiwan's at much lower prices. Currently, however, Thailand and South Africa are identified as having pest problems and are restricted from exporting oranges.

WTO Accession Trade Liberalization

Horticultural Commodity Liberalization

<i>Commodity</i>	<i>Tariff Rate before Accession</i>	<i>Tariff Rate Post Accession</i>
Potatoes	25 %	20 %
Oranges	Mar - Sep 25 % Oct - Feb 50 %	Mar - Sep 20 % Oct - Feb 30 %
Lemons	Jan - Sep 25 % Oct - Dec 50 %	Jan - Sep 15 % Oct - Dec 30 %
Grapefruit	Jan - Sep 25 % Oct - Dec 50 %	Mar - Sep 15 % Oct - Feb 30 %
Grapes	42.5 %	20 %
Peaches	50 %	20 %
Plums	35 %	20 %
Apples	50 %	20 %
Papaya	50 %	35 % (25 % deferred to 2004)
Other Mandarins	50 %	30 %
Other Citrus	50 %	42.5 %

Product Marketing

Convenience stores, supermarkets, and hypermarkets are growing rapidly throughout Taiwan, accounting for 57 percent (\$11 billion) of total food sales, according to the Ministry of Economic Affairs. Food retailing in Taiwan has entered a new era of strong competition, mergers, and greater concentration. However, 55 percent of fruit is still handled (sold) in wet markets. During 1999, Taiwan authorities implemented a program to upgrade and remodel traditional wet markets.

Even though the distribution system has improved, handling and merchandising is still complicated. Many produce importers in Taiwan play the role of importer, distributor, and wholesaler because they are required to make deliveries to individual stores. Convenience stores can either buy directly or buy from importers and manufacturers. However, the current tendency is to increase the volume of direct imports to avoid the higher cost of products purchased from importers and local manufacturers.

Heavily dependent on imports, the retail sector is always receptive to new and innovative food products. Because gift giving is a big tradition in Taiwan, fruit packaged as gifts could offer some strong growth potential. In addition, lunch boxes are gaining acceptance and are viewed as

a good way to introduce consumers to U.S. fresh fruits. The market for packaged vegetables and ready to eat foods is also growing.

U.S. suppliers are encouraged to provide products that suit the local taste and can be incorporated into locally known dishes. U.S. origin is well regarded in Taiwan and U.S. products in stores such as Costco are the most popular. The Agricultural Trade Office, Taipei, reports that strong U.S. brand image is necessary due to increasing competition.

The hotel and restaurant industries (HRIs) are benefiting from the growing number of meals consumed outside of the home. However, HRIs are so fragmented that their purchasing power is low, making it difficult for U.S. suppliers to gain advantage over competitors. In addition, people do not associate what they eat in restaurants with what they buy for home consumption. The total size of Taiwan's foodservice/HRI sector in 2000 was approximately \$9 billion. Bakeries are very prevalent in Taiwan and also innovative. Nuts, dried fruits, and fresh fruits are used in bakeries.

In Taiwan, the term "organic" is used liberally because there is not a certification organization. Small stores specialize in organics. The term "organic" typically means locally grown and not certified. Because "organic" is not clearly defined in the mind of the consumer and because of its overuse, the average consumer remains skeptical of products referencing this term.

Quality appears to be a greater influence on the Taiwanese consumer than price. Even when faced with financial difficulties, the average consumer will continue to choose a healthful diet that includes an abundance of fresh fruit and vegetables. Food appearance in general is very important and more specifically, fruit color, and size are of primary consideration. These factors greatly influence the price received for the good. Although trade liberalization will increase competition for the United States on the Taiwan market; tariff reductions are likely to lower import costs, which can be passed on to the consumer.